

# The Canadian Chartered Accountant

OFFICIAL ORGAN OF

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

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## Editorial Comment

### *The World is Disturbed*

Over a year has elapsed since the conclusion of the second world war and while no thinking person was foolish enough to expect that peace negotiations would go smoothly, there is widespread disappointment over the extent of friction. On top of this we have, in Canada, in the United States, in Britain, and in other countries with which we are concerned, strikes and other interruptions to the process of industrial recovery. Economic interests on the side of both labour and capital, just like the nations themselves, often seem to be sparring for position rather than working for the common good. That is why we have a general let-down in the public morale, evidenced in many instances by disregard of law and order. The nineteenth century philosophy of private enterprise, which brought amazing progress and also serious inequalities, has almost completely succumbed to the attacks of its enemies, but as yet there is no general agreement on any plan. In this condition of general confusion the exponents of complete state domination have a moral advantage in the very simplicity of their plan, but they can not conceal the fact that it means the servility of everything else. Until we arrive at a plan by which people can have peace and freedom to live their own lives, it is surely apparent that the world will not be right to live in, and the more specific goal of economic prosperity will not be achieved.

*Accountants'  
Annual  
Meetings*

The Dominion Association of Chartered Accountants held its annual meeting in Montreal in September, while the annual meeting of the American Institute of Accountants, scheduled for Atlantic City, September 30 to October 3, will no doubt be over before this issue reaches our readers. The Canadian meeting, attended by more than two hundred from outside and by several hundred residents of Montreal, is briefly reported elsewhere in this issue. The program of the American Institute, besides providing for the usual consideration of examinations and other regular business, featured sessions on the following main topics: Developments in Cost Accounting During the War as they Affect the Auditor; Developments in Accounting Procedure; Auditing Standards; Accounting Education; Special Problems of the Sole Practitioner and Moderate Sized Firm; and Federal Taxation.

*Interest  
Tests*

When our Association some months ago offered an interest test to our members and their students, there was a wide response, 1,500 of the forms being distributed through practising firms. The first batch of 640 went to the "scoring" bureau in New York in time to be summarized for our annual meeting, where Mr. Warren W. Nissley, C.P.A., spoke on the subject. His address will appear later in THE CANADIAN CHARTERED ACCOUNTANT. Individual results are being reported by the bureau directly to the practising firms. The balance will follow later.

While individuals vary greatly, the interests of the accountants in Canada are found to conform substantially with those of accountants in the United States, a result which inspires considerable confidence in the value of the test. Of course the main purpose is not to ascertain whether the established accountant is in the right groove, but rather to set a pattern by means of which the interest of the prospective student may be checked. Some young people have the capacity to adapt themselves to almost any circumstances. Others again, through personal connections or other special influences, may set their minds on the wrong kind of career. The test seeks to reveal, by a wide

range of questions many of which have no apparent relation with any occupation, qualities of mind which in the final result can be analyzed from the vocational viewpoint. It is a new field which may bring important results for schools, colleges and professional bodies.

*College Education  
and the Accountant*

To choose college education as a preliminary to accounting, or to go from college into accounting, was hardly thought of in the early days of the profession, but with growing emphasis on the practical side of college training there has been a rapid increase in the number of university trained men in the accounting field. The American Institute of Accountants, which draws its members from the state bodies, finds that whereas up to 1926 only about twenty per cent of its incoming members were college graduates, the proportion is now over 50 per cent. In the United States, Britain and Canada, university training is becoming more closely tied up with requirements for admission, mainly of course as a substantial credit, but in New York State at least as an essential. In Britain a group of universities have undertaken to work in close conjunction with the accounting bodies. The net effect of course is to modify the original apprenticeship, but as yet it has not been completely abandoned; in New York State the graduate must obtain his practical training before being admitted as a member. The following announcement by The Institute of Chartered Accountants in England and Wales is of special interest in this connection.

"Careful consideration has been given to the major problem of the right type of tuition and the relation between theoretical and practical instruction, and the following conclusions have been arrived at: (a) that the University scheme provides for the needs of clerks who wish to devote part of their qualifying period to theoretical studies on a full-time basis and that, for the time being, no further development in this direction is practicable; (b) that the courses provided by coaching establishments must remain for the time being the main source of tuition." The Institute also emphasizes the importance of student societies in the development of interest in the profession.

## Report of Forty-Fourth Annual Meeting

**T**HE 44th annual meeting of The Dominion Association of Chartered Accountants was held in Montreal, P.Q., at the Windsor Hotel, during the four day period September 9 to 12, 1946. The executive committee met on the morning of the 9th. The Committee on Education and Examinations of the Provincial Institutes met on the morning of the 10th, and the Dominion Committee on Accounting and Auditing Research met at the same time. The Dominion Council met on the afternoon of the 9th and on the afternoon of the 10th, with a final meeting late on the afternoon of the 12th. General sessions of members were on the morning of the 11th, and during both morning and afternoon of the 12th. There were no meetings on the afternoon of the 11th.

The Institute of Chartered Accountants of Quebec admirably fulfilled the role of hosts, providing arrangements for golf, trips for the ladies, and numerous other social events. The president of the Quebec Institute entertained the visiting presidents of other institutes, and their wives at luncheon.

The meetings included an informal reception on the evening of the 10th, and a luncheon for members on the 12th, with dinner and dance on the same evening.

The general sessions included discussions of topics selected by the Committee on Accounting and Auditing Research, and of student selection, in addition to the general business of the association. C. F. Elderkin, in his presidential address, reviewed the activities of the Association and its committees.

Special guests at the meeting were T. Dwight Williams, president of The American Institute of Accountants, John L. Carey, secretary of the Institute, and Warren W. Nissley, who came from the Institute to speak to the session on student selection. The Association was also happy to have a visit from Sir Harold Howitt, past president of The Institute of Chartered Accountants of England and Wales, who was in America at the time.

The following officers were elected for the year: President, R. C. Field, of British Columbia; first vice-president, T. H. Moffet, of Saskatchewan; second vice-president, C.

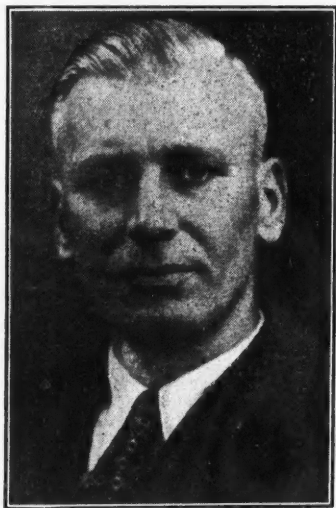


## REPORT OF FORTY-FOURTH ANNUAL MEETING

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A. Patterson, of Ontario; first regional representative, W. A. Morrell, of Prince Edward Island; second regional representative, K. J. Morrison, of Alberta; immediate past president, C. F. Elderkin, of Quebec; treasurer, W. G. H. Jephcott, of Ontario. Clem L. King is secretary and Research Director of the Association.

The following committee chairmen were appointed: Accounting and Auditing Research, W. L. McDonald, of Ontario; Education and Examinations, E. J. Howson, of Ontario; Legislation, A. E. Beauvais, of Quebec; Magazine and Publications, R. F. Bruce Taylor, of Ontario; Post-war Planning, A. B. Shepard, of Ontario.



**R. C. FIELD**

President, The Dominion Association of Chartered Accountants

Richard C. Field, the Association's new president, was born in Brighton, England, in 1899, and obtained his early schooling in Edmonton, Alta. In 1915 he was articled as a student of law in Victoria, B.C., but interrupted his studies to serve overseas from 1917 to 1919. On his return he commenced the study of accounting, and became a member of the Institute of Chartered Accountants of British Columbia in 1925. He has served on the Institute Council for the past ten years and was president for the year 1943-44. He has practised under his own name in British Columbia for the past fifteen years.

## President's Address at Annual Meeting

By C. F. Elderkin, C.A.

President

The Dominion Association of Chartered Accountants  
1945-46

**M**EMBERS of The Dominion Association of Chartered Accountants—I am extremely pleased to note such a large attendance at this, the 44th Annual Meeting of the Association.

The meetings of the Executive Committee and Council which have been held during the past three days have been very constructive and I sincerely hope that most of you have been able to attend the two very excellent and instructive general sessions.

The reports of committees will, I am sure, indicate in some small manner the very considerable amount of work carried out during the year. Before dealing with them, may I have the privilege of making a few personal references and remarks.

I am going to ask Mr. King to read the names of those who have passed beyond during the year. Among them are members from almost every province in Canada, members who have rendered great service to their profession, to their community and to their country, and I ask you to stand with me a moment in silence to pay tribute to their memory.

John Anderson—Prince Edward Island  
Harry H. Bamford—Saskatchewan  
Alan G. Byers—Quebec (on military service)  
Hiram Augustus Calvin—Ontario  
James Arthur Cook—Quebec  
Thomas James Coulter—Quebec  
Wilfred John Dawson—Saskatchewan  
Elmer Ross Epps—Quebec  
George Samuel Jewell—Ontario  
Michael George Kannon—Quebec  
Lord Plender—Ontario  
Maitland Frederick Pridham—Ontario  
John Alfred Ryan—Quebec  
Thomas William Saul—Manitoba  
William Ernest Seatree—Manitoba  
Neil McCabe Smith—Ontario  
Robert Randolph Thompson—Quebec  
Melville Wells Waddington—Ontario  
Ernest R. Watson—Nova Scotia  
George Weir—Saskatchewan.

In addition to these I deeply regret to report that eight other members have died during the current fiscal year of the Association.

At this time I wish to introduce to those of you who have not had the pleasure of meeting him, Mr. Clem King, our new Secretary and Research Director. Mr. King has expressed a wish to meet as many of the members as possible during these meetings and I hope that any of you who have not had a previous opportunity, will make yourselves acquainted with him at the conclusion of this meeting. I would also like to express the appreciation of the members of the Association to Mr. McKague, who is returning to his professional work. Mr. McKague's services as secretary and editor of the magazine during the war years have been of great value to us and we wish him every success for the future.

I would like to make a brief summary of some of the activities of your President during the past year. The American Institute of Accountants extended the usual kind invitation to attend their annual meeting which was held in October last in Chicago. While they found it necessary to greatly curtail the attendance because of travel restrictions, the agenda was a most interesting one and the discussions and reports were extremely informative. Many of their problems are similar to ours and I feel strongly that the maximum of co-operation should exist between the two organizations.

In November, I had the privilege of speaking at a dinner meeting of the members of the Nova Scotia Institute and took the opportunity of telling them of some of the work of this Association. The members of that Institute lived up to their well-known reputation for hospitality and it afforded a pleasant opportunity of meeting for the first time many members of this Association.

All of the officers of the Association had the pleasure of attending the annual dinner meeting of the Ontario Institute which took place in Toronto immediately after the mid-year meeting of the Executive. We were also entertained at luncheon and these functions afforded an excellent opportunity to renew many old acquaintances.

In Quebec I spoke to a meeting of the Students' Society of the Institute at one of their monthly meetings and also

had the pleasure of attending the mid-year annual dinner as well as the dinner following the annual meeting and golf tournament in June.

On two occasions during the year I spoke to the Ottawa Chartered Accountants' Club, an extremely active and progressive organization which holds monthly speakers' meetings during most of the year.

As your representative I attended the annual dinner meeting of the Canadian Society of Cost Accountants and Industrial Engineers which was held in Niagara Falls on June 14th, at which, on your behalf, I conveyed good wishes to the members of that organization.

Other provincial institutes were kind enough to extend invitations but lack of time prevented my attendance. I greatly regret that it was impossible to visit more of the constituent institutes during my presidential year.

#### **Reconversion**

This is the first Annual Meeting since 1939 at which we can look back to a year free from the bitterness and anxieties of war. We have now turned to the enormously difficult and vital task of conversion to peacetime economy and the rehabilitation and reinstatement in new surroundings of those who have fought so valiantly in the armed services or who have given of their best on the home front in less hazardous but relatively important duties for their country.

To many, this reconversion appears to be progressing at a pace which is unforgivably slow. Without a realization of the real and complex problems involved, there are some who want a prompt cure for all ills and an immediate completion of the change to peacetime conditions but a continuation of the benefits of wartime prosperity. Unfortunately, these things cannot be accomplished so easily and until government, capital, management and labour can co-operate in an understanding manner for the ultimate benefit of the whole and not solely for the individual, the group or the class, the transition to a prosperous peacetime economy and the replacement of our depleted living resources will be dangerously difficult.

Nevertheless, these difficulties, serious as they may be, are part of the "growing pains" of a nation, and we have but to look at the amazing progress of the last half century to renew our confidence in the future of this country. A

nation such as this which, during a short period of six years of war, accomplished almost unbelievable results in the production of food, shipping, munitions and other war material, can surely rely on the men, initiative and resources responsible for such production to build a strong structure of economy for this and future generations.

We, as chartered accountants, can and should take an active and constructive part in this reconversion which is so essential to the welfare of all. During the war we prided ourselves that the members of the profession did their share in carrying the burden. This is not the time to relinquish that burden. We must use all of our skill, ability and energy in the advancement of our own standards and in the interest of our fellow citizens, for only by so doing can we properly contribute to build up a country of which all who are citizens will be proud to call themselves Canadians, and a world in which we may live in peaceful communion with our fellow men.

#### **Committee Activities**

Reverting to the activities of the various committees of the Association, I wish to express, on behalf of all members of the Association, our sincere appreciation to the chairmen and members of these committees for the work which they have carried out. They, who have given their time freely and generously, are outstanding, active and very busy members of the profession who have made substantial sacrifices in order to carry out these extra duties. We all owe to them a very considerable debt of gratitude.

**Executive Committee:** Following the mid-year meeting a rather extensive interim report was published in *The Canadian Chartered Accountant*. The final report is intentionally brief, as most of the activities are covered in the reports of the sub-committees.

**Financial Statement:** The financial statement of the Association as at 31st May, 1946, with the auditors' report thereon, and the income and expenditure statement for the year ended that date, have been submitted to you and I would now move, seconded by our Treasurer, Mr. Hurst, that the said statements be approved and adopted. The meeting is now open for discussion and Mr. Hurst will be pleased to offer any explanations required.

**Accounting Research Committee:** The committee, under

the chairmanship of Mr. McDonald, has been greatly enlarged and, with the assistance of our new Research Director, Mr. King, it is hoped that many valuable reports will be published in the future. The committee will be very pleased to receive suggestions and recommendations of subjects for study.

**Legislation Committee:** The work of this committee during the year, under the chairmanship of Mr. Beauvais, has been exceptionally well carried out. The report of the special sub-committee on taxation has received very many favourable comments among members of the profession and also from many public sources.

In Quebec the Provincial Legislature passed an Act which in effect closed the profession of public accounting and placed it under the control of the Institute of Chartered Accountants.

**Magazine and Publications Committee:** This committee, under the chairmanship of Mr. R. F. Bruce Taylor, have again presented a very satisfactory report, particularly in view of the difficulties of publication during the past year. Shortage of paper, facilities and contributions have made it increasingly difficult to maintain the standards of the magazine in the past and it is gratifying to know that there have been some improvements in respect of all of these matters during the past few months.

The Income Tax Handbook, edited by Mr. A. W. Gilmour, was published again in revised form and is becoming increasingly popular with members of our own profession as well as with those of other professions and occupations.

Mr. Taylor has kindly consented to act as editor of the magazine for a limited period of time following Mr. McKague's resignation. At the meeting of Council held this week, the Executive was authorized to obtain the services of an Editorial assistant.

**Post-War Planning Committee:** The brief on post-war taxation, prepared by this committee, was published in the June issue of The Canadian Chartered Accountant and has been the subject of many complimentary comments. The committee has now finished its report on Company Law and this will shortly be published in the magazine. It will be noted that the committee does not intend to proceed with the study of financial statements as it is felt that this study

comes within the scope of the work of the Accounting Research Committee.

This committee has now finished its assignment after almost three years of extensive study and work and I wish, on behalf of all the members of this Association, to express our deep appreciation to Mr. A. B. Shepard, the chairman, and the members of his committee.

**Membership and Institutes:** The secretary has prepared an extremely interesting series of statistics in respect of the membership of the Association and of the constituent institutes which has been submitted to you together with the other reports. It will be noted that our total membership is now almost 3,000. The reports from the respective provincial institutes are very informative and I recommend their perusal.

**Board of Examiners-in-Chief:** The report of this Board is included in the report usually made by the chairman of the Education and Examination Committee, as Mr. Howson acts as chairman of both organizations. It is gratifying to note that there was a substantial increase in the number of successful candidates and some satisfaction may be felt that for the first time in many years the Board has realized a small surplus over its expenses.

I should like to take this opportunity of extending congratulations and good wishes of all members of this Association to the following prize-winners: S. Kwiat, Quebec—highest standing in Canada in final examination; M. de-Coster, Quebec,—second highest standing in Canada in the final examination; A. P. Downs, British Columbia,—highest standing in Canada in the intermediate examination.

At the mid-year Executive meeting, it was decided that in future the winner of the gold medal for the highest standing in the Dominion final examinations would be invited as a guest to the following annual meeting of the Association. Mr. Kwiat, being a Montrealer, did not receive many benefits from this award, but it is hoped that in future years this award will provide to the new member obtaining the highest standing a pleasant experience and an opportunity to widen acquaintanceship with members of his profession.



## **American Institute President's Address**

**By T. Dwight Williams, C.P.A.**

**Oklahoma City, Okla.**

**President, The American Institute of Accountants**

Address at annual meeting of The Dominion Association of Chartered Accountants, Montreal, September, 1946.

**F**OR the past several weeks Mrs. Williams and I have looked forward to our visit here with you. The unsettled conditions prevailing in Europe, especially the national border complications there, which have been so much a part of our news lately, have served to focus our attention on the traditional friendship existing between your country and ours. The lack of red tape at your border and the ease with which we crossed it, again spotlighted this friendly spirit and made us feel that Canada welcomes visitors from the United States.

This friendliness can, I suppose, be accounted for by the fact that basically our interests, problems and objectives are similar. I am sure that our professional brothers here are faced with many of the same problems that we have at home. I am sure this is also true of industry as well as of the other professions. Whatever the cause, so long as the friendship between us continues, and we work together in an effort to restore peace and trade throughout the world, lasting benefit will result regardless of happenings elsewhere. Canada and the United States working together will be a vital factor in restoring peace and prosperity to the world.

### **Problems of Labor and Capital**

I said a while ago that I thought perhaps the accountants here and at home were facing similar problems. I think this is probably true of our people generally. At home we are faced with the problem of converting our war economy to one of peace. The conversion of our war industries to the production of consumer goods has not progressed as rapidly as some had hoped. The shooting war has been over for a year and we still have not achieved an adequate production of peace time products. This delay is caused in a large part by the failure of management and labor to reach satisfactory agreements on the question of labor's share in the fruits of production. Some labor leaders

have advanced the theory that labor is entitled to participate in the profits of a business and are therefore entitled to look at the financial records. Only recently Mr. Green, President of the American Federation of Labor made such a statement.

It seems to me that such a theory is unsound and that wages should be geared to production not to profits. Undoubtedly many labor leaders fear that either a profit-sharing or production-sharing plan might carry with it a revival of the speed-up method and its accompanying evils. We should be able to work out some plan of production-sharing which would eliminate the evils of the speed-up method and at the same time provide an incentive for the creation of new wealth through increased production which could be shared with the labor in the plant perhaps on an overall basis rather than on the basis of the individual worker. Such a plan might set aside a portion of the proceeds of production in excess of agreed normal standards for the plant to be paid as additional compensation periodically or used to create a fund to provide compensation on an annual basis. I know you didn't come here to listen to theories on how our labor difficulties might be solved and I don't pretend to be able to offer a satisfactory solution for them. We do know that production of consumer goods in large quantities is needed to stave off the devastating inflation now facing us. Some solution to the labor problem must be reached soon. May I suggest to you that when it is reached public accountants should have an important part to play in the administration of the agreements between labor and management.

#### **Interest in Financial Statements**

The active interest of labour in the financial results of our industrial economy is a new part of that public interest which sustains the profession of public accounting. This interest arises out of the fact that many of our business organizations are owned or financed, or provide the means of livelihood to persons who have no active part in the management of the business. Public interest in the results of business operations has rapidly increased in recent years, first, as a result of wide distribution of corporate securities and expansion of commercial credit; second, as a result of income taxation and government regulation of business;

third, as a result of rate and price control, and now as a result of the demands of labor.

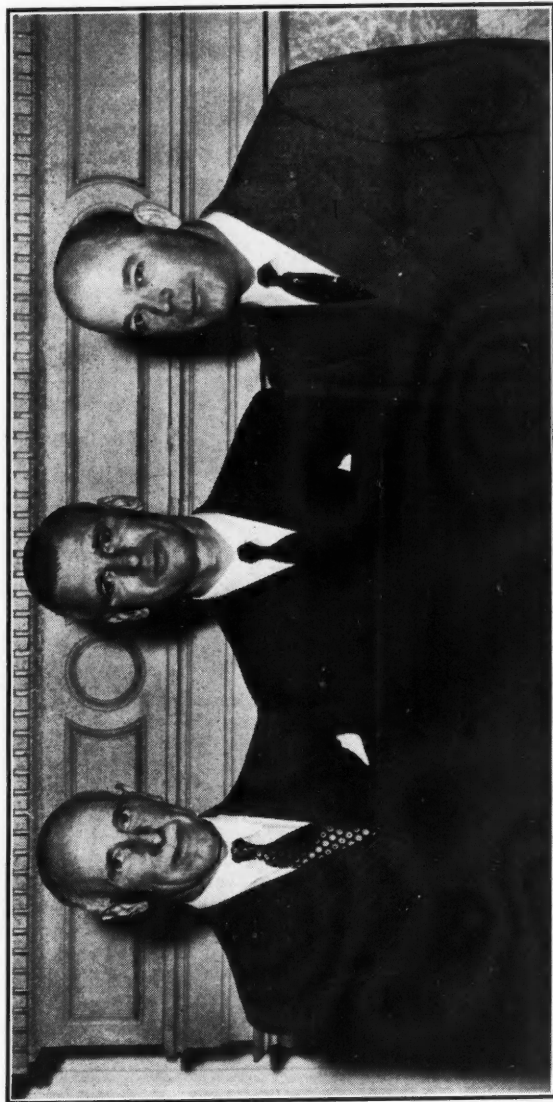
This public interest in the financial results of business and the need for independent financial reporting is the economic and social justification for the existence of our profession. Because we have recognized this, and have met the responsibilities which are a part of the task of independent reporting, the profession has won the confidence of the public. Without this confidence we cannot continue to exist as a profession.

The question has been raised, however, as to whether labor will believe that public accountants can ever be free of a tinge, at least, of partiality to management or ownership as opposed to labor. Let us hope that we can enjoy the confidence of labor to the same degree as we have that of investors and credit grantors generally. I am sure that chartered and certified public accountants generally will always be able, if given the opportunity, to make a fair and fearless report on the operations of business regardless of the purpose for which the report is made. It does not appear to be unreasonable to believe that a procedure similar to the one now used in informing the investing public and credit grantors as to the financial affairs of the business could be applied in supplying information to labor which it feels it needs in order to carry on its negotiations with management. Financial statements designed to inform employees of the results of operations of a business should tend to cement friendly relations between them and management. Some companies have seen fit to make reports designed to present their operations to employees. Perhaps if such a policy was adopted by more concerns and the habit of making special reports by employers to employees becomes more general, much of the misunderstanding between labor and management will be dissolved. By giving a little thought to supplying in the annual reports of corporations information and statistics relating to salaries, wages, and dividends; and costs, prices, and profits; a labor relations job can be done which will repay many times the effort required to design and complete the report.

#### **Net Income**

It has been said many times that it is the desire of the accounting profession to make financial reports as signifi-

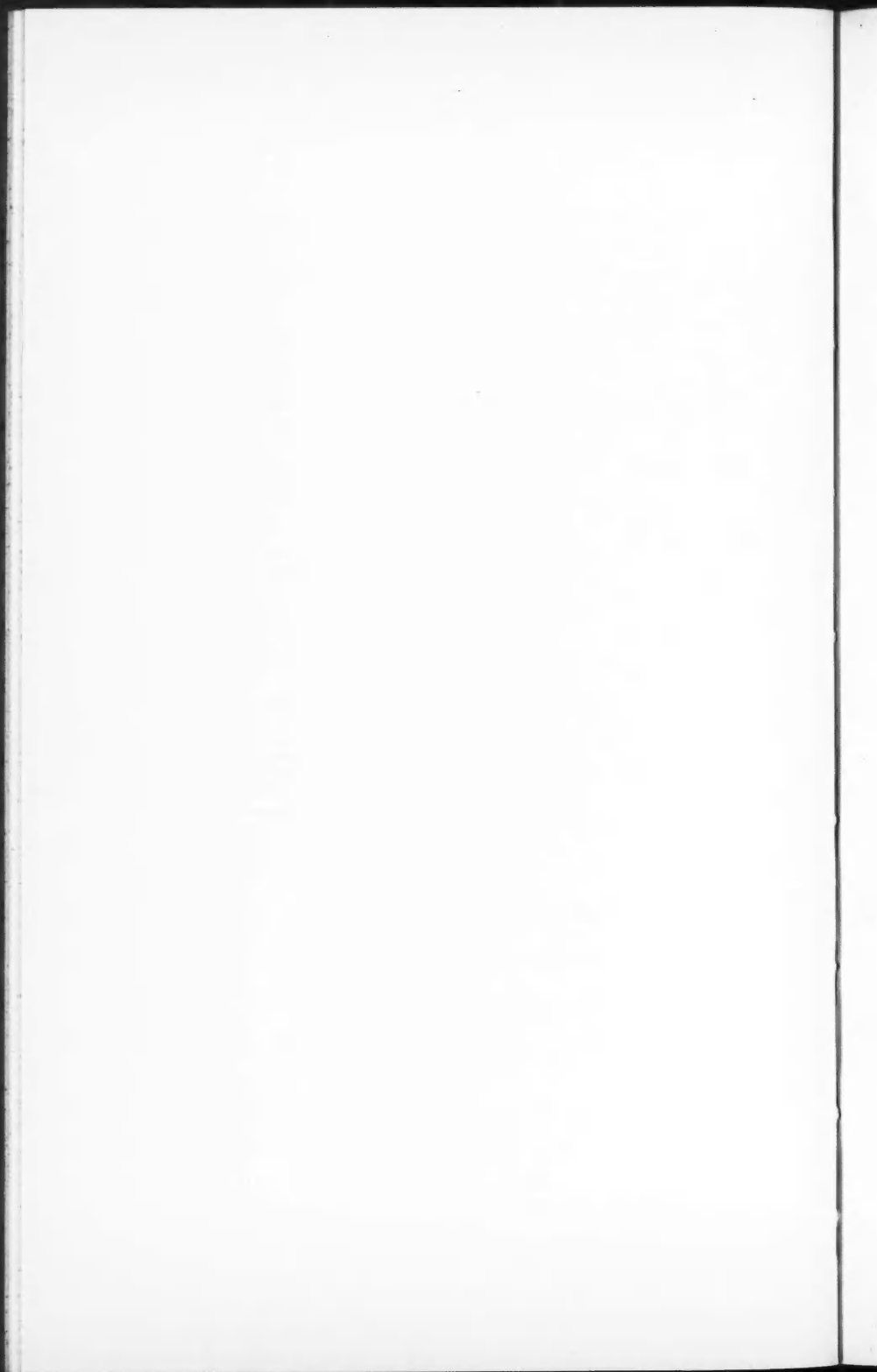
# ACCOUNTANTS' HEADS PICTURED AT DOMINION MEETING



SIR HAROLD HOWITT  
Immediate Past President  
The Institute of Chartered Accountants  
in England and Wales

R. C. FIELD  
President  
The Dominion Association of  
Chartered Accountants

T. DWIGHT WILLIAMS  
President  
The American Institute  
of Accountants



cant and useful as possible, not only to trained analysis, but to reasonably intelligent and experienced business men. During recent years there has been a decided shift in emphasis in financial reporting from the balance sheet to the income account. An article recently published in the *Journal of Accountancy* contains the following statement: "Net income for the year is a term of wide and great importance. It occurs constantly in the financial press and in the investment services, in annual reports and in prospectuses. It is to be found in contracts relating to the compensation of management, to interest on income bonds, dividends on noncumulative preferred stock, and other kinds of conditional payments.

"Since 'net income for the year' or the average for a short period of years is, in practice, usually a major factor in the computation of capital values of equity securities, the precise sense in which the expression is used is a matter of great importance. Such securities are commonly valued at a multiple of the average. As the multiplier is increased the importance of the method of measuring net income for the year increases perhaps to such an extent as to make a change in method desirable."

This shift in emphasis to the income account is significant because it has brought with it many problems that loom large in current accounting discussions. Some of these problems are the form of presentation of income statements, the propriety of charges and credits to surplus, valuation of inventories, treatment of unused war reserves, and accounting for fully amortized war facilities having a substantial remaining useful value.

An examination of approximately 109 annual reports of "industrial" companies whose fiscal years ended subsequent to July 1, 1945 indicates that there is a wide area of differences in the treatment of most of these items. It was with the view of narrowing this area of differences of practice and of developing criteria for new practices to meet the problems arising from the increased importance attached to the income statement that the American Institute of Accountants established a Research Department and organized a Committee on Accounting Procedure. This committee presently has under consideration the above questions, together with several others.

One of the problems which the committee is attempting

to answer is the nature and purpose of the income statement and the related question of the propriety of charges and credits to surplus. There are those who feel that the purpose of the income statement is purely historical and that a series of annual statements should include all the items of income or expense for the period covered. Others argue that the figure of net income for the year should be as significant as possible, excluding material items not related to the operations of the year. A sub-committee of the Committee on Accounting Procedure has concisely stated the problems as follows: "The question of what constitutes the most practically useful concept of income for the year is one on which there is much difference of opinion resulting in wide differences of practice. One of the concepts is that the net income for the year should be measured by deducting from the accumulated net income up to the end of the year the amount accumulated up to the beginning of the year. Another, and an entirely different concept, is the one which emphasizes the relationship of items to the operations of the year excluding from the income account any important items which are not so related."

It seems that a position could be adopted which while making the statement useful to the public in that it would clearly reflect the operations of the year, would at the same time eliminate the error of constantly overstating income one year and correcting it by surplus charges in a subsequent year. This could be done by grouping the items reflecting the year's operations and arriving at the net income for the year. This figure could then be adjusted for items pertaining to the operations of prior years or other items unrelated to the year's operations, transferring the balance to the surplus account. This, then, would leave as the only items to be handled through the surplus account the amount transferred from the income account, dividends and transactions involving capital shares.

Another method of treatment would be to give the same prominence to the income of the few years prior to the current year as is given to it. If this is done correction of the prior years' operations, not shown in the current year, would be reflected in adjusted statements of income for the prior years.

Ordinarily there should not be many such items but probably for the next few years net income *for the year*



will have little significance unless items pertaining to the war period are eliminated from its computation. In this connection it may be interesting to note that out of the 109 annual reports reviewed only two contained statements of income for the five-year period 1941 to 1945. This, notwithstanding the fact that 20 of the reporting companies made transfers to and from contingency and postwar reserves, five reported adjustments to the surplus account for accelerated amortization on emergency facilities and four for renegotiation refunds.

Another problem which has caused much discussion during the past few years and which has been made particularly acute by the prevailing high tax rate is that of reporting income to stockholders on a basis different from that used for determining taxable income. I am not speaking of the differences inherent in the tax laws and therefore applicable uniformly to all years, but of the differences caused by adopting an accounting policy relating to specific transactions which differs from the tax treatment accorded those items. One example which is cited in the Committee Bulletin covering this problem is to charge a large loss to a previously provided reserve and thus exclude it from income while, at the same time, reducing the provision for taxes in the Income Account by the amount applicable to the loss. Such treatment results in the income statement reflecting a higher net income for the year than would have been the case if the loss had not been sustained. Obviously, a fair presentation of the year's operations requires that an amount equal to the tax saving on the loss be charged against income and not against the reserve. The position taken by the Committee with respect to these items has caused a great deal of controversy, principally about the method of presentation. It is interesting to note that while the SEC in its Release 53 disagreed with the presentation made in the particular case which followed the first method set out in the Committee Bulletin, it did find the second method prescribed therein as acceptable.

#### **Postwar Reserves**

The complexity of the problem of accounting for postwar reserves is revealed by the treatment accorded them in the reports reviewed. Twenty-four of the companies increased postwar reserves by charges to income and 3 by

charges to surplus, 12 credited portions of the reserves to income, 6 indicated there were no changes in the reserves in 1945 and 6 companies carried charges direct to the reserve account. These charges included renegotiation refunds to the government, reconversion expenses, accelerated amortization, additional federal income taxes of prior years, and a reduction in estimated postwar refund of excess profits taxes and inventory losses. Nine of the companies transferred portions of the reserves to income to cover charges included in costs and expenses. One company transferred to income the portion of the contingency reserve no longer required and 2 companies transferred the balance of the reserve to surplus. One company transferred the reserve to earned surplus and applied it against reconversion expenses which were charged to surplus. These expenses were included in the income statement but were eliminated from the final figure by credit for the amount of the reconversion expenses. One company increased its reserve for inventory losses and war contingencies by \$175,000.00 charged to income and transferred \$250,000.00 balance from the reserve for additional federal income taxes which it stated was no longer required.

The possibilities of distorting income statements by improper treatment of postwar reserves is a matter of much concern to public accountants. Suppose a corporation discovers that it has an excess in its reserve account, created in 1943, of \$1 million. May it by transferring this balance to its income account for 1945, a year to which it is clearly not related, increase the income for that year? Can the addition of \$1 million to its income for the year be adequately disclosed in the footnotes to the income statement? The Chairman of the Institute's Committee in discussing this question says: "Perhaps it can, but the Committee believes it is better for that excess to be kept out of the statement of net income for the current year. There is, however, a school of thought that maintains that technique requires a consideration of how or where the reserve was provided, so there well may be companies which will return these unused reserves to income in the current year. We can hope that these will be few and that the effect will be very clearly explained."

Last March the SEC issued Accounting Series release No. 54 announcing an amendment to Regulation S-X re-

quiring special disclosure of war costs, losses and expenses currently being recognized. The amendment requires that where such items are excluded from the income and carried directly to surplus or reserve accounts that the net aggregate of the amount so excluded shall be set out following the income for the period. It also requires disclosure of the nature, amount and treatment accorded the excluded items as well as an explanation of the tax consequences where such costs and expenses are deductible in determining taxable income. The amendment also requires a statement of the principle followed in classifying the excluded items as attributable to conditions arising out of the war or its termination. The Commission stated that the amendment was necessary because of the variety of treatment given those items by reporting companies. It appeared from studies made that many corporations had during the past few years, set aside substantial amounts as reserves against anticipated but indeterminate, costs and losses attributable to the war period. Most of these reserves were set up by charges against income but in some instances the charges were made against earned surplus.

In view of the fact that the Commission believes the problem will be of short duration and that by the close of the current year most companies will be able to estimate, with reasonable accuracy, the further need for postwar reserves no particular treatment was prescribed by it. The new rule simply requires special disclosure as previously outlined.

These illustrations suffice to indicate the complexities of some of the technical problems with which our profession is faced today.

I wish that time permitted a discussion of some of the equally important professional problems confronting us.

#### **Trend Toward Regulation**

There seems to be a trend toward regulation of the public accounting profession in both England and the United States, and, I understand, in some provinces of Canada as well. Regulation brings with it complicated questions involving the relations between qualified members of the profession (chartered accountants or certified public accountants) and others who are licensed to practice. The possibility of attempts to lower the standards which have been

built up so laboriously in the past fifty years can never be ignored.

At home we are interested in seeing that young men of the right caliber and possessing the qualities needed by a successful public accountant are informed about the profession. To that end the Committee on Education has issued the pamphlet *Public Accounting as a Career*. This treatise is designed to inform students of the requirements and possibilities of the profession.

The Institute has also issued a refresher course (*Contemporary Accounting*) designed to bring the returning accountant veteran up-to-date on the happenings within the profession during his absence. It presently has under consideration the possibility that this course may be kept up to date and serve as a basis for staff training. It might be interesting to note that over 22 thousand copies of this publication have been sold.

Our relations with the Bar are on a sound basis and generally there is no conflict between lawyers and accountants. In May 1944 there was formed a National Conference of Lawyers and Certified Public Accountants the history and activities of which have been published both in the American Bar Association Journal and the Journal of Accountancy. In several states local conferences of lawyers and accountants have been formed and the work of these conferences is progressing satisfactorily.

#### Selection of Personnel

The designing of tests to assist in the selection of personnel for the profession is a project which has received a great deal of attention during the past several years. This work is progressing satisfactorily and should provide some interesting developments in the near future. It is hoped that this work will prove to be of lasting benefit to the profession.

The work of re-examining auditing procedures and standards has been undertaken with the view of stating certain basic standards and procedures by which the objectives of the public accountant may be measured. It hopes to demonstrate the application of these basic principles through the development of case method studies.

Under recent legislation, the General Accounting Office has set up a division of Corporation Audits charged with

the duty of auditing federal government corporations such as RFC, Commodity Credit Corporation, TVA, and a great many more. As a result of the activities of the government in this field as well as others (the Bureau of Internal Revenue has built up a large staff of agents to check tax returns) fear has been expressed by some accountants that the government might in time take over the auditing of regulated business. This idea seems to be impractical but is not at all impossible. The mere possibility of such a happening is sufficient incentive to insure that the profession will recognize and meet its responsibilities to the public.

It is sufficient to say that accountants in the United States realize that the profession has an important part to play in the adjustment of our postwar economy and is making every effort to prepare for the responsibilities which it must assume.

#### **Serving Nation's Economy**

We have learned during this war, both here and in the United States, that our productive capacity is great enough to provide goods in sufficient quantities so that all people may have a decent standard of living. All of us feel I am sure that if we can provide such production for war we can do it in times of peace. Except for the fact that capitalism or private enterprise has in the past proven its ability to produce more and better goods and more and better jobs than any other system yet known to the civilized world I would think we were likely to drift into socialism in our country. Too, there is, I think, a growing realization that while government regulation of business in the public interest may be necessary, it is not desirable for government to actually enter into business. Our experience has shown that politics and productive efficiency are rarely found together.

The immediate prospect for us seems to be a return to a competitive private enterprise system with close government supervision to assure maximum production, employment and fair distribution among all of the people of the goods and services needed to provide a high standard of living.

The attainment of these objectives provides a challenge and an opportunity to our profession to assist in bringing

about a successful and fair solution of the problems before us. The possibility that we accountants, as individuals and working through our organizations may make a substantial contribution, by fairly and independently reporting on the reasonableness and fairness of operating information supplied by business, furnishes an adequate reason for our existence as a professional group.

If the obstacles to full and complete co-operation between labor, management and capital are removed we will soon surpass our postwar stride and we will produce far more than ever before. I am sure we will do this because we must.

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#### EDITORIAL ECHOES FROM THE ANNUAL MEETING

Montreal so different from other Canadian cities—the hard work done by the Executive Committee and the Council—the interested attention to the well-prepared papers given at the General Sessions—the extemporaneous questions and answers raised during the discussion periods—the generous hospitality and excellent staff work of the Quebec Institute and its members individually—the entertainments so ably arranged by the women's committee—all the ladies—all the golfers who suffered the outrageous fortunes of good or bad luck—the single golfer who played his average game—our attractive and gracious guests from Great Britain and the United States—the charm and speed of the French language—the delightful inflections and diction of the English-speaking French-Canadians—the halting and awkward attempts of most of the rest of us to speak French—the wide range of conversations during the social gatherings—the late hours—the early breakfasts—the *au revoirs*—packing—paying our accounts.

Mesdames et Messieurs de l'Institut des comptables agréés de Québec, salutations et remerciements les plus sincères pour votre hospitalité qui a fait notre séjour à Montreal et celui de nos dames l'un de plus agréables.

## Senate Tax Committee Report

Following is Part Two of the Final Report of the Special Committee of the Senate on Taxation. It directs attention to those sections of the Income War Tax Act which in the committee's opinion require amendment, clarification or repeal.

Part One of the committee's report was printed in our July issue.

On October 31, 1945, a special committee of the Senate was constituted with the purpose, as expressed in the terms of reference "of examining into the provisions and workings of the Income War Tax Act and The Excess Profits Tax Act, 1940, and of formulating recommendations for the improvement, clarification and simplification of the methods of assessment and collection of taxes thereunder."

On November 15, 1945, the terms of reference were amended by the addition of the following words after the word "thereunder": "and the provisions of the said acts by redrafting them if necessary".

Part I of the final report of your committee was presented to the Senate by the chairman, the Honourable W. D. Euler, on May 28th, 1946. Senator Euler then indicated that Part II will deal with the necessary changes to the act recommended by the committee and Part III will relate to the administration of the taxing statutes.

Since the adoption by this Chamber of Part I of the report, the Minister of Finance has introduced certain resolutions indicating the propositions upon which the government proposes to found its amending legislation in respect of the Income War Tax Act and The Excess Profits Tax Act, 1940. In the speech introducing the Budget Resolutions the Minister of Finance stated that "instructions are being given to the inter-departmental drafting committee to explore carefully the possibility of reducing the number of discretions now vested in the minister or at least of providing for their exercise under regulations approved by the Governor in Council." It has also been indicated that such an inter-departmental drafting committee has been requested to consider the possibility of generally clarifying the Income War Tax Act.

Since the government proposes to take certain measures, as described above, which will, it is hoped, to some extent achieve the objects for which your committee has been constituted, it is thought desirable to direct the second part of the final report to assisting the government in carrying out its intention in this direction. In doing so, however, your committee wishes to go on record that although it here confines itself to a number of limited suggestions regarding the treatment of certain sections of the Income War Tax Act and The Excess Profits Tax Act, 1940, it requests the opportunity of reviewing whatever proposals may be made by the inter-departmental committee in order to determine whether in its opinion the proposals might benefit from further study or from additional recommendations by a committee of this Chamber.

As stated in Part I of the final report, your committee has heard briefs from twenty-three organizations and individuals. Your committee has considered the representations made in these briefs in so far as they relate to certain aspects of the appeal provisions in the two statutes and in a more limited manner in so far as they refer to the desirability of specific changes in the legislation and improvements



## THE CANADIAN CHARTERED ACCOUNTANT

in the administrative techniques employed by the taxation division of the Department of National Revenue.

It is proposed, therefore, that Part II of this report be confined to a statement of those sections which in the opinion of your committee, after giving study to the briefs and representations made to it, require amendment, clarification or repeal.

In so far as the details of administration within the department are concerned, which, it has already been stated, will be dealt with in Part III of this report, your committee feels that it requires further opportunity to hear witnesses and to study their representations with a view to making an analysis of the methods of operation and administration of the department before making recommendations in this connection.

After hearing the statements of a number of witnesses on the question of the remuneration now being paid to various classifications of the staff of the taxation division, however, your committee is impressed with the fact that current salaries appear in the main to be inadequate in view of the national importance and the high degree of responsibility inherent in the nature of the functions performed by officers of that division.

In view of the impossibility of completing its task in this connection before the end of the present session of parliament, your committee recommends that, if it is the wish of this Chamber that Part III of this Report be made, your committee be reconstituted for that purpose.

In so far as the desirable changes in the legislation are concerned, the representations made may be divided into three broad categories:

(1) Those recommending that certain sections of the taxing statutes be amended in certain directions.

(2) Those recommending that certain sections be clarified and more particularly with regard to the exercise of ministerial discretion thereunder; and

(3) Those recommending that certain sections be repealed.

Accordingly, your committee recommends:

(1) That a complete review of the taxing statutes be effected to the end that not only may clarity and coherence be achieved but that their provisions may be brought into conformity with modern business practice. In this connection it is recommended that the following sections of the Income War Tax Act be amended to reflect the above principle:

Section	Subject Matter	Reference to Page of Evidence Before Committee
2 (1) (j)	Definition of self-contained, domestic establishment, 1946; p. 122, Canadian Bar Association.	
6 (1) (a)	Expenses not laid out to earn income.	1946, p. 119, Canadian Bar Association; p. 248, Toronto Board of Trade; 286, Senator Haig.
6 (d)	Reserves, contingent accounts or sinking funds.	1946, pp. 113, 114, Canadian Bar Association.
6 (n)	Allowance for depreciation.	1946, p. 81, Dominion Chartered Accountants Association, p. 248, Toronto Board of Trade.
16	Capital stock changes by company with undistributed income.	1946, p. 249, Toronto Board of Trade.

## SENATE TAX COMMITTEE REPORT

### 55 (b) Continuation of liability for 1946, p. 306, Income Taxpayers' Association.

In connection with section 55(b), it is recommended that the six-year limitation be amended to provide that an assessment may not be re-opened after three years from the day upon which it was mailed to the taxpayer in cases other than those in which the taxpayer has made a misrepresentation of fact or has committed fraud in making his return or supplying information under the act.

(ii) That the following sections of the Income War Tax Act be clarified in such a manner that their interpretation is not subject to doubt and that they do not come into conflict with other sections of the said act:

<i>Section</i>	<i>Subject Matter</i>	<i>Reference to Page of Evidence Before Committee</i>
9B	Withholding tax on non-residents.	1946, p. 122, Canadian Bar Association; p. 249, Toronto Board of Trade.
16	Capital stock changes by company with undistributed income.	1946; p. 249, Toronto Board of Trade.
88(8)	Deductions from gift tax.	1946; p. 126, Canadian Bar Association.

(iii) That the following sections of the Income War Tax Act be repealed:

<i>Section</i>	<i>Subject Matter</i>	<i>Reference to Page of Evidence Before Committee</i>
10	Distinction between income from chief occupation and secondary activity.	1946; p. 118, Canadian Bar Association.
32A	Transactions to avoid taxation.	1946; p. 82, Dominion Association of Chartered Accountants; p. 249, Toronto Board of Trade; p. 285, Canadian Electrical Association.

(iv) That the following sections of The Excess Profits Tax Act, 1940, be repealed:

<i>Section</i>	<i>Subject Matter</i>	<i>Reference to Page Evidence Before Committee</i>
15	Transaction to avoid taxation.	1946; p. 82, Dominion Association of Chartered Accountants; p. 249, Toronto Board of Trade; p. 285, Canadian Electrical Association.

It is pointed out that the foregoing sections should not be regarded as necessarily comprising all the sections, which require amendment, clarification or repeal. The list above set forth is composed of those sections which, in the opinion of your committee, and of the witnesses who came before it, are most urgently in need of attention by the governmental draftsmen in order to facilitate a uniform, clear and reasonable administration of the taxing statutes as they presently exist.

Your committee wishes to go on record in connection with any revision which may be proposed or effected by the government in respect of the two taxing statutes above mentioned as being in complete accord with the statement of the Minister of Finance with respect to his instructions to the inter-departmental drafting committee regarding the reduction in the number of discretions now vested in the Minister

of National Revenue and wishes further to endorse his desire to explore the possibility of providing for their exercise under regulations approved by the Governor in Council. Such a limitation of ministerial discretion becomes all the more necessary, since, much to the regret of your committee, the Minister of Finance has not seen fit to adopt the recommendations made by your committee in Part I of this report relating to the establishment of a board of tax appeals with authority to review administrative discretions.

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## **The Proper Approach to Examination Papers**

**By H. C. Dell, C.A.  
Toronto, Ontario**

An address before the Students' Association of  
the Institute of Chartered Accountants of Ontario

I understand that many of the students here this evening have at least a passing interest in certain examination papers they will be given an opportunity to try early in December. It is for this reason that I have been asked to talk to you this evening for a short time in a general way about what I consider to be the proper approach to examination papers.

Probably the surest way to make certain that you do poorly on any examination paper is to study for that examination within twenty-four hours of writing it. Cramming at the last minute very rarely produces beneficial results. The reason is not of course that there may not be a subject on which you should brush up, but rather that if you have been studying one aspect of a subject just before sitting down to an examination, you will inevitably concentrate on this and see it lurking in many questions where it does not actually exist. Furthermore, last minute cramming is inclined to leave one in an upset and nervous condition which is definitely detrimental to the actual writing of a paper. A good night's sleep the night before an examination is the best way to prepare for an examination that I know of and few people can get a good night's rest if they have been cramming up to midnight before they go to bed.

As soon as an examination paper is received, read it through carefully twice, watching every word and punctuation mark, to make sure that you understand every question. You will find that you will save time if you read the

"requirements" first before reading the balance of the question. The number of marks allowed for each question is shown on the paper and the candidate should allocate his time roughly in proportion to the marks and only spend the allotted time on each question. The questions have been so timed that an average student should complete the paper well within the given time. If a question appears to be too long, or if you think the answer requires a highly technical exposition of a complicated subject, then you have probably misinterpreted what the examiner had in mind. You may find that it is helpful to underline those portions of the question which indicate what is expected in the way of an answer—you may also find it a good plan to underline important dates, interest rates, etc.

#### Choosing First Question

The first question to be answered should be the one which the candidate feels he is best qualified to answer. While you are writing your answer to this question, you will invariably find that as a result of your previous thorough reading of the other questions, points for them will unconsciously be continuously coming to mind. These points should be jotted down in note form in the margin opposite the questions to which they refer with the result that you will often find by the time you get around to writing the last question, sufficient points have been accumulated to write an excellent answer, even though you were sure you could not possibly write a good answer to it when you first read it.

I would like to add a word of caution, however, about the question which you feel you know very well. If for instance, on business investigations, you are given a question which exactly parallels something you have done in practice, you will almost inevitably write too much with two results: (1) You may not write as good an answer as you would have had you known less about it—knowing the trees in such detail, it is difficult to describe the forest; (2) you will spend too much time on the question with the result that other questions will suffer from lack of time.

I might also add a third point, namely, that you will probably be so bucked up at having a question which you feel you can answer so perfectly that you may become

over-confident and not do justice to the rest of the paper. On the other hand, there is no doubt that each question which is well answered, gives you self-confidence which enables you to produce better answers to the remaining questions.

From the wording of the question and from the candidate's analysis of the answer which he considers is required, he should be able to allocate with a fair degree of accuracy the total marks assigned to the question to the various points involved. With this allocation of marks in mind, the candidate should be careful that he does not waste time writing a full page to earn two marks where a single line or two would have sufficed just as well. Furthermore, do not waste time by writing into the answer all the information given in the question itself.

#### Specific Suggestions

When examinations are over and the results are announced, there are always a number of students who feel that they have not been accorded fair treatment and should have received more marks. From my discussions over a period of years with several examiners, I am quite convinced that this is not the case and that the candidates have been given every possible mark and all border-line papers have been carefully reviewed. From these discussions with examiners, I have come to the conclusion that the following suggestions will assist you in obtaining the maximum number of marks on examination papers:

1. Answer the specific question or questions asked. In preparing examination questions, every effort is made by the examiner to state the questions as clearly as possible and to make sure that there are no ambiguities. The board of examiners subsequently reviews each paper and if in its mind there is an ambiguity in any question, that question is re-worded to eliminate the ambiguity. For this reason, do not note on your paper that "the question does not make it clear" as this only indicates to the examiner either that the candidate has not read the question carefully or what is more likely that he does not know the answer to the question and is merely beating around the bush.

2. Determine exactly what is being asked and put the answer down in the manner requested. If the question

states "discuss, etc." be sure that you do so. Do not give a one-sided dogmatic reply but try to show that you appreciate that there may be more than one point of view and deal with them all fairly. If the question asks you to "write a letter" then write a letter. Make every attempt to answer the question directly and do not wander off the track. If the question does not suggest the form of answer required, the use of the "tabular" method is recommended wherever it is suitable, that is, listing the main points in note form under consecutive numbers or letters. This is not only the fastest way for you to answer the question, but also permits the examiner to mark it with a minimum of effort.

3. Do not "pad" an answer. Marks are not given for padding answers and the examiner will not be impressed by attempts to bewilder him by writing all around the subject. Similarly, do not make wild assumptions in order to write about something that you may happen to know—the examiner wants an answer to the question he asked. Such juggling of information is easily apparent to the examiner and it not only fails to produce marks, but actually may work to the detriment of the student by making the examiner annoyed with his paper.

4. A large number of students go out of their way to make the questions difficult for themselves. Many of them refuse to believe that the question is as easy as it appears to be and before answering a question insist upon making a whole series of assumptions. The examiner is not interested in knowing what you would have done if other information had been given to you—what he wants to know is what you can do with the information that is already given in the question.

5. Do not tell the examiner that he has made an error—the questions have been carefully checked and if you are unable to balance, do not waste your time or his explaining that you should have been given the proper figures. The problems will balance if you have done your work correctly.

6. Write neatly. Not only does poor writing result in the loss of marks for presentation, but also may result in the loss of all the marks for an entire point or series of points if the writing is so bad as to be practically impos-

sible to decipher. Remember that the papers are probably marked by an already overworked accountant in the evenings between Christmas and New Year and that he will appreciate something that can be easily read.

7. Do not alter or cross out if this can be avoided. Train yourself to make up a whole sentence in your mind before you put pen to paper. You will thus save time and send in a much neater answer.

8. Do not write volumes all around the subject. The same overworked accountant mentioned above wishes every answer to be as brief as possible and still cover all the necessary points. Questions are marked on a point basis and not on a tonnage basis—remember that quality, not quantity counts.

9. If the question does not call for journal entries, do not make them. If you require entries to answer the question, put them down neatly on a separate sheet but do not waste a lot of time writing explanations for the entries unless the question specifically indicates that journal entries are required.

10. When working a question requiring figures and calculations, a separate sheet should be used for the rough calculations. Show the question number on the sheet and turn in your rough sheet at the back of your answers as these rough sheets may be to your advantage. If your solution is correct, the examiner will not waste time looking in the rough sheets, but if your answer is incorrect the examiner can determine from the rough sheets where the mistake has been made and if it is a clerical error, fewer marks will be deducted than if it is an error in principle. If the rough sheets are not included, the examiner is forced to conclude that the error was one of principle and not of arithmetic.

11. Avoid what might be termed the "company complex". Candidates should not always assume that an auditor is always the auditor of a company. There are unincorporated businesses to be considered as well. Where the question does not indicate that the problem concerns only a company, the question should be answered from the broad point of view, indicating where your answer applies to companies and where it applies to other businesses.

12. There is no uniformity of thought on whether or



not it is advisable to use an extended trial balance on that type of question where you are requested to prepare operating statements and balance sheet from a trial balance and other information given in the question. Personally, I feel considerable time is saved if the information given in this type of question in addition to the trial balance is carefully posted opposite the figures shown in the trial balance making sure that for every debit you have a credit of an equal amount. In this way the figures may be taken directly from the examination paper to the completed answer, and thus save the time of preparing an extended trial balance. On the other hand, I have been assured by other members of the profession that the only way that they ever were able to complete this type of question in the required time was to use the extended trial balance as they knew that when this was done they were bound to get the right answer without any problem in balancing. Personally, I think that not only is time wasted in copying out the trial balance and extending the figures, but two additional opportunities are given to transpose figures, an easy error to make when you are working under pressure. My suggestion to you in this connection is that you work out two or three questions of this type using both methods and determine for yourself which way will produce the correct answer for you in the shortest possible time.

#### Where Time is Inadequate

If you find that as the examination period draws to a close, you are rushed and you find it is impossible to finish the paper, do not waste any time explaining to the examiner that there is no time to finish but that if you had had time you know the exact answer the examiner wishes. Instead, make a brief list in proper sequence of the points which you would make in answering the question (excluding mathematical problems, of course). For such a list, you may secure the necessary marks to make the difference between a pass and a failure. The examiner cannot and will not give marks for a sob story, but he can award marks for specific points.

One further thought—do not waste your time on post-mortems after the examination is over. These post-mortems are always upsetting and rarely accomplish any useful purpose.

## A Refresher

By G. E. F. Smith, F.C.A.

Hamilton, Ontario

**I** HAVE frequently been asked by a client such a question as the price of a bond, how much a bond would yield, the number of instalments required to pay a mortgage, the amount of an annuity, etc. As I have not always had an answer as readily forthcoming as could have been wished, it occurred to me that if I drew together, in brief space, all essential reminders with formulae expressed in "knock down" fashion rather than locked in series of top heavy brackets, the result would be a reference affording the quickest solution to any future similar problem.

Tables, of course, provide answers in whole or in part but these do not necessarily give direction as to which one or ones must be used. For example, the present value of a dollar per period is likely to be a factor in a problem but the tables at hand may not say so. Therefore, if any solution is to be found without delay the solver must know at once what to look for. Also, tables available may be too limited in range.

Thinking that some members of the association may have had my experience and would find useful what I have found to be so, I am submitting the following material, which shall be called "A Refresher", to the editorial department of the magazine for its consideration. No reasons why the different factors as put together supply the solutions are given. What is submitted is merely a ready reference to a collection of facts (soon forgotten) that must be known before an ordinary investment problem can be "tackled." That these facts (which can be found in any text book) are presented in, perhaps, a new form is one of my excuses for parading them.

The examples that follow illustrate only comparatively simple problems, and for the reason that it is not necessary for a chartered accountant to have a wide knowledge of the subject. He is not an actuary. But he has received some training and presumably for the purpose of making use of it in his profession. Therefore, it is not to be desired that he should come to find himself completely "out of practice."

## A REFRESHER

The laborious task in the solution of one of these problems is that of finding the value of  $A^c$  (the amount of \$1.00 at compound interest)—the chief factor in the present value of \$1.00 per period. Contracted multiplication is slow at the best. However, a table of logarithms will provide the answer in a minute or two, no matter how high the value of  $C$  should be. Take, for example,  $A$  as \$1.004 and  $C$  as 144.

Table shows log. of 1.004 to be .....	0017337
Multiply by 144 .....	2496528
Table shows anti-log. of 2496528 to be .....	1776858
By inspection $A^c$ is .....	\$1.7768—

And to find  $C$  by resolving  $A^c$ :

Log. of $A^c$ , 1.776858 is .....	2496528
Divide by log. of $A$ , 1.004 .....	0017337 = 144

While all readers of this magazine will doubtless be aware of the fact that a table of logarithms can be used without labor and without any knowledge of the subject, it would be interesting to know how many are neglecting this bookful of very short cuts.

## A REFRESHER

### *Symbols*

### *Standing For*

- |   |   |
|---|---|
| A | \$1.00 plus interest at yield rate on \$1.00 for a yield period.  |
| B | The interest \$1.00 yields for one payment period.  |
| C | The number of all yield periods.  |
| M | The number of the first series of yield periods or,<br>The number of yield periods for which payment is deferred. |
| N | The number of the second series of yield periods.   |
| D | A sum of money payable in the future.   |
| E | The present value of a sum of money.  |
| G | The amount of one periodical payment.   |
| H | The amount of one periodical payment, second series.  |
|   | <i>The present value of \$1.00 per period:</i>  |
| P | (\$1.00 divided by $A^c$ , subtracted from \$1.00, divided by B)  |
| R | (\$1.00 divided by $A^m$ , subtracted from \$1.00, divided by B)  |
| S | (\$1.00 divided by $A^n$ , subtracted from \$1.00, divided by B).   |

**Note:** Yield period means the time between compounding interest. (Where, for example, a bond pays interest at one rate for a certain number of years and at another rate for the remaining years, there must be two series of yield periods, hence  $M$  and  $N$ .) Payment period means the time between bond interest payments, instalments on a mortgage, one year in an annuity, etc. Where the yield and payment periods coincide  $A$  is always \$1.00 more than  $B$ , but where the periods are different there must be found the rate that applied at the time of payment equals the rate for the time when compounded. For example, if interest is to

be compounded annually at 5% and payment is to be made monthly the rate to be applied at the time of payment is .40741% which is equal to 5% compounded annually. In further explanation the following table is presented.

Giving the amount of A and B at 5% for each of certain periods.

Yield Period	Payment Period	A	B
Annual	Annual	1.05	.05
	Semi-annual	1.05	.024695 (Square root of 1.05 less 1.00)
	Month	1.05	.004074 (12th root of 1.05 less 1.00)
Semi-annual	Annual	1.025	.050625 (1.025 <sup>2</sup> less 1.00)
	Semi-annual	1.025	.025
	Month	1.025	.004124 (6th root of 1.025 less 1.00)
Month	Annual	1.004167	.051165 (1.004167 <sup>12</sup> less 1.00)
	Semi-annual	1.004167	.025263 (1.004167 <sup>6</sup> less 1.00)
	Month	1.004167	.004167

### Examples—Bonds

1. Find the price of a bond, due in 16 years, for \$30,000.00 to yield 3½% semi-annually, interest at 4½% semi-annually.

2. Find the price of a bond, due in 25 years, for \$20,000.00 to yield 3¾% semi-annually, interest at 4½% for the first 15 years and at 5½% for the remaining 10 years, semi-annually.

Example 1.		Example 2.	
A	\$ 1.0175	\$	1.01875
B	\$ .0175	\$	.01875
C	32		50
M			30
N			20
D	\$30,000.00 divide by Ac	\$20,000.00 divide by Ac	
G	\$ 675.00 multiply by P	\$ 450.00 multiply by R	
H		\$ 550.00 multiply by S, divide by Am	
Price is	Addition	Price is	Addition

The approximate yield rate only of a bond can be found with a formula, and the result must be corrected by trial.

A formula which gives a reasonably good approximation where a bond is purchased at a premium is:

(Premium divided by the number of interest periods, subtracted from the amount of one interest payment) divided by

(Premium divided by two, plus face value).

and when purchased at a discount:

(Discount divided by the number of interest periods, plus the amount of one interest payment) divided by (Discount divided by two, subtracted from face value).

### Examples—Instalment Mortgage

Amount \$35,000.00 to yield 5% annually, for 12 years, monthly instalments of principal and interest of \$321.76 each. Find the amount or number of years or amount of one instalment.

- A \$ 1.05  
 B \$.0040741  
 C 12 E multiplied by B, divided by G, subtracted from \$1.00, divided into \$1.00. This gives Ac. Resolve Ac to find C.  
 E \$35,000.00 G multiplied by P.  
 G \$ 321.76 E divided by P.

### Examples—Annuities

Present value \$4,158.33, 10 payments of \$500.00, yield  $3\frac{1}{2}\%$  annually. Find present value or amount of annuity or number of payments.

- A \$ 1.035  
 B \$ .035  
 C 10 E multiplied by B, divided by G, subtracted from \$1.00, divided into \$1.00. This gives Ac. Resolve Ac to find C.  
 E \$ 4,158.33 G multiplied by P.  
 G \$ 500.00 E divided by P.

### Examples—Annuities

Purchase price \$10,000.00, 11  $1/5$  payments of \$1,200.00, deferred for four years, yield 3% semi-annually. Find purchase price or amount of annuity or number of payments.

- A \$ 1.015  
 B \$ .030225  
 C (Approx.) 22 2/5 E multiplied by Am, multiplied by B, divided by G, subtracted from \$1.00, divided into \$1.00. This gives Ac. Resolve Ac to find C. Number of payments is  $\frac{1}{2}$  of C.  
 M 8  
 E \$10,000.00 G multiplied by P, divided by Am.  
 G \$ 1,200.00 E multiplied by Am, divided by P.

A study of the different examples given will disclose the fact that, leaving out the face value of a bond, the illustrated problems are all alike. An interest coupon is the same as a mortgage instalment or an annuity payment. The present value of a mortgage or of an annuity is the present value of all the periodical payments to be made, but the present value or price of a bond is not only the present

value of all the interest coupons to be paid (periodical payments) but, in addition, the present value of the face value.

Where, as in bond example 2, there are two series of interest payments, the present value of the second series is determined by first finding what the value will be when the final payment of the first series falls due, and then dividing the result by  $A^n$ ,  $M$  being the number of periods at the end of each of which a payment of the first series will be made.

As it is hard to imagine a question being asked about a bond that is neither the price nor the yield, only the two appropriate answers are given. The amount of an interest coupon or the number of coupons would always be known.

However, in respect to instalment mortgages or annuities, any one of three questions might be asked. Reading the particulars given in the second example for annuities one might visualize an elderly person, to be retired in 4 years, with \$10,000.00 in the bank and needing \$1,200.00 a year, being anxious to know how many payments he would receive. Or, having made up his mind as to the number of \$1,200.00 payments he wants, asking what he must pay to get such number. Thirdly, it may be that he wants a certain number of payments and is ready to invest \$10,000.00. Then he must be told the amount he will receive annually.

While it is clear that any one of three questions might be asked about an annuity, perhaps it is not clear in the case of an instalment mortgage. When does the amount of an instalment mortgage have to be found? Is it not already known? Well, a person wishing to mortgage his property for the least amount would ascertain the highest monthly payment he could afford to make. Here, the amount of the mortgage would have to be arrived at from the proposed monthly payments. Again, several instalments of a mortgage have been paid and it is required to find the amount of principle outstanding.

I have shown, in a small way, how logarithms can be used to good advantage and, possibly, this article could have no better ending than the presentation of a problem in which logarithms are used for all operations.

Before proceeding, and for the benefit of those who have forgotten, it should be understood that the table gives only

## A REFRESHER

the fractional part of a logarithm and as the answer to the problem can be found by inspection, such part alone will be used. Whole numbers, plus or minus, produced by addition or subtraction, will not be put down, as will be seen when the example is read. Since multiplication is performed by adding log. to log. and division by subtracting log. from log., when the formula calls for addition or subtraction the anti-log. or number must first be found (see example).

### Problem

73 instalments of the mortgage in the example have been paid. Find the amount of principal outstanding.

There are in all 144 instalments and so 71 remain to be paid.

### Solution

The answer is obtained by finding the present value of 71 payments of \$321.76 each. The facts and figures are:—

A	\$ 1.05	Log.	
B	\$ .0040741	0211893	
C	$5\frac{1}{2}$	6100317	
E	\$ To find		G. Multiplied by P
G	\$ 321.76	5075321	
<i>Formula</i>		<i>Operations</i>	
\$1.00		Log. of 1.00	0000000
Divided by A:		Subtract (0211893 multiplied by $5\frac{1}{2}$ )	1253700
			<hr/> 8746300
		Anti-log. of 8746300 (subtraction follows)	7492556
Subtracted from \$1.00			<hr/> 2507444
		Log. of 2507444	3992312
<i>Divided by B</i>		Subtract B	6100317
<i>Equals P</i>			<hr/>
Multiplied by G		And this is the log. of P	7891995
		Add G	5075321
			<hr/> 2967316
		Anti-log. of 2967316	1980303
		By inspection principal outstanding is	<hr/> \$19803.03

### An Apology

I must apologize to all actuaries for making A stand for the orthodox (1 plus i). My excuse is that I wanted to combine the two items and A seemed a stout letter for the purpose. N should represent the number of periods. But N was not enough for my plan which required three letters—one for a first series, another for a second series and a third for the total of both.



## The Natural Study Year

By William R. C. Patrick, C.A.  
Vancouver, British Columbia

**O**VER THE YEARS, every magazine devoted to the interest of the public accountant has devoted space to articles discussing the "natural business year" in which the writer deplored the tendency of business organizations to accept blindly the calendar year as the fiscal period, rather than adopt an annual closing date more closely in accord with the low point of its annual cycle of operations and, it is hoped, more convenient to the public accountant himself. Bearing in mind the old saying about the ill-shod state of the shoemaker's family, one might think it well for public accountants to consider the application of the principles they advocate to the largest organization controlled by public accountants as a group; that is, the student educational organization.

In times of peace, most of the students who enter into articles with a view to becoming members of the institutes come from high schools or universities. In May or June they graduate. A brief holiday restores the energy lost in preparation for the last examinations and then they are ready and eager to commence those further studies which will fit them for their chosen field. At the same time, the offices of practising accountants which have openings for students, realizing that some time must be given a new member of the staff coming direct from school or university before he becomes more of a help than a hindrance, are well disposed to have him enter their offices during the summer, long before the pressure of winter work commences. So far, so good—the timing is natural.

His opening secured and his articles signed and sealed, the student now turns his attention to the study courses he must complete before he writes his examinations. To his dismay he learns that the first course to be taken commences in February or March of the succeeding year, which may be eight or nine months away. When one considers the difficulty with which the habit of study is developed through scholastic years, it seems that the institutes might well regard this interruption in the habit with as much dismay as the pupil. It is true that some institutes permit

students registered by the end of May to cover the first term during the summer and thus catch up on those who were registered at the beginning of the calendar year, but this is a makeshift arrangement, often not available to university graduates who commence with the second year course, and unsatisfactory at best. The early "ground-work" courses are most important and should not be skimmed.

By this time the reader (if there are such people in these days of rush) is far ahead of the writer. The solution he finds to be simple and obvious, namely that the institutes' study course should run on the same arrangement as every school and university on the continent with the year's work commencing with a fall term and finishing in the spring term. Why, he asks, did it ever start in any other way, and, having so started, why hasn't it been changed already?

At this point the writer can be of no further help to the reader. He doesn't know the answers. Probably someone has said it would be difficult to make the change. After all, why not a natural study year?

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## Secondary School Education

Following is the text of a brief submitted by The Institute of Chartered Accountants of Ontario to a Royal Commission on Secondary School Education appointed by the Ontario government.

The Institute of Chartered Accountants of Ontario was incorporated by Act of the Ontario Legislature in 1883. The act as it stands now states that the objects of the Institute shall be "to promote and increase the knowledge, skill and proficiency of its members . . . and to that end to establish classes, lectures and examinations, and to prescribe such tests of competency, fitness and moral character as may be thought expedient to qualify for admission to membership."

The Institute has approximately 1,100 members, and 750 students in the employ of its members. The students receive their practical training from members of the Institute and their training in theory from a five year extra-mural course administered for the Institute by Queen's University. The Institute has co-operated with similar bodies in the other provinces, as a result of which there exists at the present time a common board of examiners for all students in the Dominion for the intermediate and final examinations.

The Council of the Institute of Chartered Accountants of Ontario realizes that no change in the educational system can reasonably be based on what it considers to be the best training for those who will eventually be employed by members of the Institute. How-

## THE CANADIAN CHARTERED ACCOUNTANT

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ever, it believes that as its views are based on an intimate knowledge of personnel problems in all types of businesses, these views will be shared by many others and should, therefore, be expressed to the Commission, as follows:

1. The educational system should avoid, as far as possible, any necessity for a student to decide, at an early age, what trade or profession he will follow. Vocational training should not start until a proper foundation of general education has been laid. Further, sufficient flexibility should be retained to enable a student to change from one course of study to another (e.g., from a vocational to a general course) if he wishes.

2. As far as they may be efficacious and effectively administered, vocational tests and guidance should be provided in the secondary schools. An early indication of aptitude, confirmed or modified from time to time, should be available to the student, and should be made known to parents. Tests and guidance should continue to be available after students have left school.

3. Those who are to enter the field of professional accounting should have a general rather than a vocational training at school; specialization should come after they leave school. For those students, such subjects as bookkeeping and commercial law occupy, at school, time which would be better devoted to other subjects. The Institute provides fully for practical professional training, and for academic professional training through its extra-mural courses.

4. The general training should enable a student to express himself concisely and accurately; to do mathematical work quickly and accurately; to distinguish prejudice from knowledge; and to learn to think and to assimilate facts. Mathematics, English, another language, history and science, the usual subjects of upper school examination, provide a well balanced foundation for a general education. Some manual dexterity, and some acquaintances with everyday affairs should be acquired.

5. That all students are not equally gifted is obvious. Whatever standardization may be necessary should allow sufficient flexibility to enable a good student to progress as quickly as his ability permits, so that less gifted students may not be permitted to retard the progress of more gifted students.

6. The main purpose of a school should not be to prepare a student for a particular job, but to give him the opportunity of preparing to lead a full and interesting life. A general education alone can achieve this, and a good student with that general education will pick up quickly the technical skill and knowledge required for the occupation he chooses.

7. The provision of scholarships should be sufficiently generous to enable any student with ability to acquire a general education.

8. As a broad general education provides a solid foundation on which to build his professional training, our educational system should provide every opportunity for a student with professional ambitions to continue and enlarge his general knowledge and education by taking a university course. Under our present system, the time necessary to complete such a programme of general education does not encourage its adoption. It should be reasonably possible for the average student to complete such a programme more quickly than at present, thereby enabling him to complete his professional training in his early twenties. An increasing number of those entering the accounting profession is drawn from the universities.

9. A careful study of educational and training methods developed under the necessity of war demands should be made, and those which

have proved successful should be incorporated in our educational system. The adoption of such ideas might simplify our methods, provide more flexibility, and enable the earnest and ambitious student to reach his goal within the shortest time possible.

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## Current Accounting Literature

By Frank S. Capon, C.A.

Montreal, P.Q.

During the past month two pamphlets have been published which will be of widespread interest to those accountants whose reading and studies stretch beyond the realm of bookkeeping. The first of these is the annual report of the Minister of Finance on the operations of the Foreign Exchange Control Board. The pamphlet is an outstanding example of financial reporting, amply illustrated with informative tables and supported by complete statements. Canada's balance of international payments during the past thirty years is traced in order to explain the necessity for and purpose of wartime exchange control, and the results of the Board's operations are summarized, together with the policies and procedures followed. The report is particularly interesting in view of the recent extension of the operation of exchange control.

The second pamphlet is a study by J. W. Hansen entitled "Cartels". In view of the assumption which has been so prevalent in recent years that cartels are *ipso facto* bad and must be exterminated ruthlessly, it is refreshing to see an open minded objective study of the cartel problem as it affects the Canadian economy. The author comes to the inevitable conclusion that combines of various sorts must be tolerated and even encouraged—they will exist in business, in labour, and even in our own professional bodies! It appears probable that there will be a Canadian witch hunt on the cartel problem—a hunt in which many thousands of accountants will be engaged as experts by both hunters and quarry—and it therefore behooves us to know our subject from both sides, to study it dispassionately and objectively, as Mr. Hansen appears to have done.

### Standard Costs in the Textile Industry

The textile industry has always been fundamentally a job-cost industry, but in an article in the 1st August N.A.

C.A. Bulletin, G. C. Lyon gives an example of the application of standard costs in the textile field. This article is well supported with illustrations of forms and tabulations, and covers the problems of material price and quantity standards, labour standards, production standards, and various reports.

#### **Steamship Accounting**

Accounting for shipping lines is a highly specialized subject, and the problems involved are outlined admirably by A. B. Poole, Vice-President and Treasurer of American President Lines, in the same bulletin. In the first place, the accounting unit for ship lines is the voyage—shipping companies continue to maintain their accounts on the "venture" basis. All revenue and expenses of each round voyage are cleared on completion of the voyage, so that operating accounts include only the results of voyages completed during the period. The shipping industry is also affected by many special laws, subsidy arrangements, tax provisions and so forth which bring with them accounting problems foreign to other industries. Foreign currencies also frequently have an important bearing on shipping company accounts.

#### **Incentive Pay Systems**

The 15th August N.A.C.A. Bulletin contains a brief but pithy article by J. W. Nickerson on incentive pay systems. Starting on the premise that all wages must be paid at hourly rates, piece rates or a combination of both, the author goes on to discuss the principles and effects of incentive systems that can be superimposed on top of base or minimum pay rates in order to achieve higher output or increased labour efficiency. In these days of worker unrest, the relationship between productivity and wages is rapidly becoming of vital importance, as it is only through greater output per unit of labour that higher wages can be paid for any long period.

#### **Accounting Principles**

A recent speech by F. R. M. de Paula, covering the broad subject of accounting principles, is reprinted in the 27th July issue of "The Accountant". Mr. de Paula quotes liberally from the Kysant case judgment in emphasizing the importance of sound accounting principles and discusses at some length the policies that have been enunciated by

the U.K. Institute in its recommendations and in its submission to the Cohen Committee. The contributions already made to the profession by Mr. de Paula have been unsurpassed and the current speech is one more example of the value of authoritative statements by senior accountants.

#### **Profession or Industry.**

The 3rd August issue of "The Accountant" contains an important article by H. A. Adams presenting the advantages and disadvantages of both industry and the profession for young accountants who must choose between the two. While the assets and liabilities of the two careers are interesting, by far the most important point made by the author is the view that the accountant does not leave the profession to go into industry—but that the qualified accountant in industry is as important a member of the profession as is the auditor. Another point well taken is that the accountant entering industry will find that industry from the auditors' viewpoint is quite different from that of the chief accountant's or director's viewpoint. So long as our profession is the "accounting profession" and not the "auditing profession" it seems of the utmost importance to achieve a greater degree of mutual understanding and co-operation between the two sections.

#### **Training for the Profession**

In a recent speech to the Incorporated Accountants of Liverpool, reprinted in the 10th August issue of "The Accountant", Bertram Nelson discussed the need for revising the method of training new accountants to meet present day needs. Two points of particular interest may be noted:

- (1) the clerks in an audit firm are trainees rather than employees, and their office work must be spent primarily for achieving the desired end of developing good professional accountants;
- (2) part of the training period should be spent in gaining practical experience in industry, instead of limiting training to the audit field.

The speaker also emphasized particularly the need for a broad, liberal education—preferably a university degree—as a sound basis for the development of able professional men.

### **Uncertainties of the Future**

Clinton Davidson, in his article in the August issue of "The Controller" discusses some of the major uncertainties with which business is faced, and some matters on which professional and industrial accountants can be of help. The planning of additional capitalization, mergers, problems of the single proprietor opposite estate duties, and several other points are brought out.

### **First Survey by Controllershship Foundation**

The announcement of the first survey to be made by the Controllershship Foundation is announced in the August issue of "The Controller". The survey will endeavour to ascertain the degree of acceptance by the public of facts and figures of business accounting. Results should be of wide interest in view of their possible bearing on the form and content of published financial statements.

### **Statistics Applied to Financial Statements**

A brief, but pithy, article on the application of statistical controls to financial statements was contributed by W. B. Rice in the July issue of "The Accounting Review". Essentially, the author states, the purpose of statistics is to describe and summarize masses of figures, to reduce them to averages and trends. When masses of figures are thus simplified the executive can see at a glance the essential meaning of a detailed report or statement and can therefore act on it with more confidence. The author lists nine "action charts" which should provide adequate statistical control for any company, and illustrates his article with a case study of an inventory value and turnover chart.

### **Reducing Accounting Costs**

"The best way to reduce clerical expense is to eliminate every unnecessary transaction which requires the making of a record". Although he ends on this note, W. F. Covert devotes most of his article in the July issue of "The Accounting Review" to the various inefficiencies which are born in or subsequently infiltrate into every accounting system. In particular, he calls for a segregation of all routine clerical work in order that it can be handled on a production basis, and he also points out the necessity for eliminating quickly the inefficiencies and extra work that piled up during wartime. A continuous review of the system of state-



ments and reports is also recommended, in order to permit the prompt elimination of any continuation of reports that are no longer of value.

#### **Authoritative Financial Accounting**

Mr. George O. May has contributed another milestone to accounting literature with his article under the above heading in the August issue of the "Journal of Accountancy". Emphasizing the importance of accounting in the economy of today, Mr. May traces the growth of financial accounting, showing particularly how professional opinions have almost invariably maintained a generation lead on regulatory bodies in the adoption of new accounting principles or techniques. In discussing the possible future development of financial accounting, Mr. May points out that accountants today are becoming increasingly aware of the possible necessity for discarding the accounting postulate that assumes the stability of the monetary unit, and also mentions the likelihood of a reaction from the disposition to treat value as always irrelevant unless below cost.

#### **Contents of Financial Report**

An excellent list of contents for a detailed year-end financial report on operations is included in the Auditing Practice Forum in the August "Journal of Accountancy".

#### **Published Financial Statements**

Once again the accounting profession has been taken to task for obstinately insisting on unintelligible terminology in published statements and reports. In an article recently appearing in "Trusts and Estates" (June 1946), and reprinted in the July issue of "The Management Review", Don Knowlton blames accountants for the widespread misunderstanding of the word "profit" and claims that "profit" and "surplus" are both assumed to be cash

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#### **PUBLICATION ADDRESSES, AND PRICE PER COPY POSTPAID**

Accountancy, Incorporated Accountants' Hall, Victoria Embankment, London, W.C. 2, England. 1 shilling.  
Accountants' Magazine, 23 Rutland Square, Edinburgh, Scotland. 1s. 3d.  
Accounting Review, School of Commerce, Northwestern University, Evanston, Ill., U.S.A. \$1.  
The Accountant, Moorgate Place, London E.C. 2, England. 1 shilling.  
The Controller, 1 East 42nd St., New York, N.Y. 50 cents.  
Cost and Management, 66 King St. East, Hamilton, Ont. 35 cents.  
Harvard Business Review, Harvard University, Boston, Mass., U.S.A. \$1.50.  
Journal of Accountancy, 13 East 41st St., New York, N.Y. 35 cents.  
The Internal Auditor, 39 Atlantic Street, Stamford, Conn., U.S.A. \$1.  
National Association of Cost Accountants, 385 Madison Ave., New York. 75 cents.  
Taxes—The Tax Magazine. CCH Canadian Limited, 31 Willcocks St., Toronto, Ont. 35 cents.

items by the uninformed public. The author insists that accountants should explain financial results coherently instead of providing fodder for the anti-capitalism fires, and his criticisms are constructive in that several excellent suggestions are presented for consideration.

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## Book Reviews

**Hints on the Study of Elementary Statistics.** By "Occam". Published by Gee & Company Limited, 27-28 Basinghall Street, London, E.C. 2, England. 52 pages. Post free, 4 shillings 5 pence.

This is a student's pamphlet, especially for examination candidates where a knowledge of statistical work is required. A great deal of useful information and advice is compressed within its pages, mostly through a dictionary arrangement, and several illustrations are worked out. The pamphlet notes several faults in earlier statistical methods, suggesting the need for thorough revision of text books and teaching methods.

**Auditing Questions from the Professional Examinations, with Comments on Selected Cases and Subjects.** By Myron M. Strain. 159 pages. \$3.00 per copy. Published by Pacioli Press, 451 Sansome Street, San Francisco 11, California.

This text was originally prepared as an aid to the review of auditing by C. P. A. Examination candidates. It is the most recent revision of material used for this purpose with a high degree of success during the last fifteen years in the Graduate School of Accountancy, Golden Gate College, San Francisco.

In addition to this function, however, it contains a substantial body of material of more general interest to the practitioner and student in the "comments" which preface each group of questions. Taken in total, these represent a series of commentaries on the subject of auditing which is broad in scope and helpful as a supplement to the existing literature. It also includes eight separate comprehensive programs for the verification of balance sheet and income items, many valuable bibliographical notes and an index.

The general scope of the text may be indicated as follows:

(a) The "comments", which include an elaborate description of the development of contemporary auditing standards, concepts, terminology, and report practice, an analysis of the anatomy of "verification", numerous discussions of controversial or obscure points and bibliographical notes.

(b) The specimen programs for the verification of accounts receivable, capital, cash, fixed assets, income, inventories, liabilities and sales, and the specimen answers to examination questions, both of which are intended to extend the scope of the "comments" and to provide suggestions as to form for examination candidates.

(c) The "questions without comments", designed to provide a basis for classroom discussion or to test the adequacy of the student's review of the subject matter.

The author is Dean of the School of Accountancy, Golden Gate College, San Francisco and also for many years a practising certified public accountant. He has previously written "Industrial Balance Sheets" (Harper & Bros.) and has contributed to "The Journal of Accountancy", "The Certified Public Accountant" and other reviews.

## Obituaries

### **The Late Albert Edward Ottewell**

The Institute of Chartered Accountants of Alberta regrets to announce the death on 30th July 1946 of Albert Edward Ottewell, M.A., an honorary member of the Institute. Mr. Ottewell, as Registrar of the University of Alberta, was closely associated with the work of the Alberta Institute education and examination committee. He was elected an honorary member in June 1940. To his widow the Institute offers its sincere sympathy.

### **The Late Ashley LeRoy Chown**

The Institute of Chartered Accountants of Ontario regrets to announce the death of Ashley LeRoy Chown at Toronto on September 7th, 1946.

In June 1940, Mr. Chown was appointed to a post on the Foreign Exchange Control Board where he served for over two years subsequently transferring to Clarkson, Gordon & Company with whom he was employed at the time of his death. Prior to his engagement with the Board he had carried on his own practice.

Surviving are his widow and two children, his parents and two sisters, to whom the Institute extends sincere sympathy in their bereavement.

### **The Late David Maurice Plunkett**

The Institute of Chartered Accountants of Alberta regrets to announce the death of David Maurice Plunkett who died in Vancouver on 1st September 1946.

Mr Plunkett was admitted to membership in the Alberta Institute after passing the final examination in May 1930. He was associated with the office of the Provincial Auditor, James C. Thompson & Company and with Peat, Marwick, Mitchell & Company. Within the last few months he had accepted a position with McLennan, McFeeley & Prior, wholesale hardware, Vancouver.

To his wife and family the Institute offers its sincere sympathy.

### **The Late Pierre A. Gagnon**

The Institute of Chartered Accountants of Quebec announces with deep regret the death on August 10th of Pierre Arthur Gagnon in his seventy-first year.

## **TIMETABLE OF EXAMINATIONS**

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Admitted to membership in October, 1906, Mr. Gagnon practised his profession until his death. In earlier years he took a keen interest in the affairs of the Institute and served on the Council during the years 1913 to 1915. He was one of the oldest French-speaking members.

Mr. Gagnon was a Governor of Notre Dame Hospital and member of the Montreal Chamber of Commerce.

To his wife and family, the Institute extends sincere sympathy.

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## **TIMETABLE OF EXAMINATIONS**

The Board of Examiners-in-Chief gives notice that the regular examinations for 1946 of the provincial institutes of chartered accountants will be written during the week of December 2-7 according to the following time table. The morning sessions will be from 9 a.m. to 1 p.m., and the afternoon sessions from 2 to 6 o'clock.

### **Monday, December 2**

Morning session—Final Auditing I  
Afternoon session—Intermediate Auditing I

### **Tuesday, December 3**

Morning session—Final Auditing II  
Afternoon session—Intermediate Auditing II

### **Wednesday, December 4**

Morning session—Final Accounting I  
Afternoon session—Intermediate Accounting I

### **Thursday, December 5**

Morning session—Final Accounting II  
Afternoon session—Intermediate Accounting II

### **Friday, December 6**

Morning session—Final Accounting III

### **Saturday, December 7**

Morning session—Final Accounting IV

### QUEBEC CITY COMMITTEE

Reported by Roger-H. Stanton, C.A.

Members of the Quebec City Committee of the Quebec Institute recently played host to members of the council who held their regular summer meeting at the Royal Quebec Golf Club in Boischatel.

The speakers at a luncheon tendered in honour of the visitors, were Mr. C. F. Elderkin, president of The Dominion Association of Chartered Accountants, Mr. Frank Gates, president of the Quebec Institute, and Mr. Réal Rondeau, vice-president of the Quebec Committee. In his remarks, Mr. Elderkin mentioned that the recent Quebec legislation was being closely studied in many provinces and that there was a strong possibility that other legislation of a somewhat similar nature would be enacted in the near future. Mr. Rondeau stated that "our legislation has been framed to erect a professional body which will not lower our goodwill; we must believe that within a few years, public accounting in the province will be reserved to chartered accountants only".

The golf tournament, as usual, proved a most popular event and was handily won by our friend, Rosaire Courtois, of Montreal.

The meeting would not have been complete without the presence of Mrs. Ethel Dixon, the able and popular assistant secretary of the Quebec Institute.

## STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., EDITOR

### NOTES AND COMMENT

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We have received word from the American Institute of Accountants that the special discount of 25 per cent off the published price of "Contemporary Accounting" which is allowed to veterans of the United States armed services will also be allowed to Canadian veterans. This reduces the cost of the volume (which we mentioned in these notes last month) to \$7.50 for many of our readers.

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It is a curious thing that while an industrial concern with any pretension to efficiency must necessarily operate perpetual inventory records for materials, work in process and finished goods, yet every treatise on financial accounting and every examination problem in financial accounting that we can recall seems to be predicated on the assumption that no such records are kept. Instead of speaking and thinking in terms of trial balances which would show cost of materials issued, cost of goods produced and cost of goods sold, such books and problems know only trial balances which show opening inventories and purchases and are supplemented by figures of closing (physical) inventories. We venture to claim that no industrial concern which was subject to competition would remain long in business if its accountants did all their computing by reference to physical inventories alone. Opening physical inventory (say of materials) plus purchases less closing physical inventory does not necessarily give the cost of materials used. What it gives is the cost of materials used plus the cost of materials wasted plus the cost of materials pilfered—the last two amounts being indeterminate. And so it is with work in process and finished goods.

Financial accounting admittedly is not cost accounting, but if cost accounts are operated (and perpetual inventories are a corollary of cost accounts) in order to control factory operations in their quantitative aspects, then there would seem to be no good reason why the financial accountant should be made to appear disdainful of the information



which the cost accountant gives him and which would improve considerably the trial balances and other data typically presented.

\* \* \*

### STUDENTS' ASSOCIATION NEWS

#### Ontario

On September 16th the first of a series of study groups arranged by the Ontario Students' Association was held. The meeting took place at the University of Toronto Schools and was in the form of a discussion on answering Queen's lessons and examination questions. Speakers were Professor W. G. Leonard, Queen's University, and Mr. K. LeM. Carter, 1st Vice-President of the Ontario Institute. The study groups on the following Mondays will each deal with one set of examination papers. Students living outside of Toronto are to receive mimeographed notes of these study groups.

\* \* \*

### PUZZLE

With the ten digits 9,8,7,6,5,4,3,2,1,0 express two numbers whose sum is unity, each digit being used only once, and the use of the usual notations for fractions being allowed.

\* \* \*

### SOLUTION TO LAST MONTH'S PUZZLE

The man who reaches the greatest distance will occupy  $\frac{na}{n+1}$  days before he returns to his starting point where

$n$  is the number of men in the party and each is capable of carrying water that would last one man for  $a$  days.

If in the course of their travel they make depots, the longest possible journey will occupy

$$\frac{1}{2}a \left( 1 + \frac{1}{2} + \frac{1}{3} + \dots + \frac{1}{n} \right) \text{ days.}$$

The answers are therefore 40 miles and 64.4 miles respectively.

### PROBLEMS AND SOLUTIONS

#### THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models

## STUDENTS' DEPARTMENT

for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

### PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1945

#### Accounting II, Question 4 (20 marks)

How and in which of the operating statements of a manufacturing concern would you show the following, and for what reasons?

- (a) Sales of by-products.
- (b) Inventory of unsold by-products.
- (c) Sales of excess raw materials above cost.
- (d) Premises expenses such as heat, light, rent, taxes, insurance, repairs and building depreciation.
- (e) Interest on mortgage on a factory building.
- (f) Cash discounts on sales.
- (g) Premium on United States funds used to pay accounts for purchases of raw materials.

### Answers

(a) & (b) The amount realized from sale of by-products together with any inventory of unsold by-products at the end of the accounting period should be deducted from the cost of raw material in the manufacturing statement. This is necessary in order that the cost of materials used in the manufacturing of the main products may be correctly shown.

(c) The cost of excess raw materials sold should be deducted from the cost of raw materials in the manufacturing statement, and the amount by which the sales price exceeds cost price should be credited to profit and loss account as a profit of a subsidiary operation. If the whole of the proceeds were deducted from material cost, the cost of goods manufactured would be shown at a figure below cost.

(d) Premises expenses should be apportioned on a reasonable basis over the various departments of the business occupying space. The portion of premises expenses applicable to the manufacturing departments should be shown in the overhead section of the manufacturing statement, and the portion applicable to selling, warehousing the company's finished products, and administration should be shown under the appropriate headings in the second part of the trading statement.

(e) Interest, whether on a mortgage on a factory building or on a bank loan, is a financial expense which should be shown in the profit and loss statement after the net trading profit has been brought down. Interest is incurred because the shareholders or owners have resorted to borrowing capital and therefore it represents virtually the share of profits or income allocated to the lenders.

(f) Cash discounts are generally shown in the profit and loss section as a financial expense incurred in maintaining working capital, but some times it is argued that cash discounts should be shown in the trading statement as an administration expense since cash discounts are offered to reduce collection expenses and to reduce loss from bad debts by receiving more prompt payment. Most authorities in Canada favour the including of cash discounts in the profit and loss section.

(g) A premium on U.S. funds used to pay accounts for purchases of raw materials should be shown in the manufacturing statement as an addition to the cost of raw materials purchased. This is neces-

## THE CANADIAN CHARTERED ACCOUNTANT

sary so that the manufacturing statement will include the cost of materials purchased in U.S. funds at the equivalent amount of Canadian funds.

### PROBLEM II

#### FINAL EXAMINATION, DECEMBER 1945

##### Accounting III, Question 1 (35 marks)

The A Company Limited purchased 90% of the issued capital of the B Company Limited and 80% of the issued capital of the C Company Limited on 1st January 1944. The operations of C Company Limited were found to be more profitable than the other subsidiary and on 30th June 1944 the A Company Limited disposed of 200 shares of its holdings in B Company Limited at a price of \$160 per share and on the same day applied the entire proceeds of this sale to the purchase of an additional 10% of the stock of the C Company Limited.

The investments in subsidiary companies are carried at cost in the books of the A Company Limited excepting the account representing the investment in shares of B Company Limited which has been credited with the proceeds of the 200 shares sold.

##### Required:

From the following post-closing trial balances of the three companies at 31st December 1944 and the additional information provided prepare:

1. Such journal adjustments to the accounts of the individual companies as may be deemed necessary.
2. Consolidating journal entries.
3. A consolidating balance sheet (showing the adjusted trial balance or trial balances of the individual companies).
4. A consolidating statement of earned surplus.

<i>Assets</i>			
	A	B	C
Current assets .....	\$152,500	\$150,000	\$105,000
Investment in and advances to subsidiary companies:			
B Company Limited			
Investment .....	220,000		
Advances .....	25,000		
C Company Limited			
Investment .....	214,000		
Advances .....	40,000		
Buildings and equipment .....		170,000	235,000
	\$651,500	\$320,000	\$340,000
<i>Liabilities</i>			
Share Capital:			
A Company Limited			
3,000 shares .....	\$300,000		
B Company Limited			
2,000 shares .....		\$200,000	
C Company Limited			
1,000 shares .....			\$100,000
Due to parent company .....		25,000	40,000
Accounts payable .....	235,000	40,000	25,000
Surplus:			

# STUDENTS' DEPARTMENT

Balance 1st January 1944 .....	166,500	60,000	145,000
Profit for the year .....	*20,000	15,000	40,000
Dividends (paid 31st December 1944) .....	—70,000	—20,000	—10,000
	<u>\$651,500</u>	<u>\$320,000</u>	<u>\$340,000</u>

\*Dividends received from subsidiaries, less expenses of parent company.

It is assumed that the profits of the companies for the year 1944 were divided equally between the two six-month periods.

## SOLUTION

### A COMPANY LIMITED

1. Adjusting entries	31st December 1944.
Particulars	Dr. Cr.
Investment in shares of B Company .....	\$ 750.00
(1) To Profit and loss .....	\$ 750.00
To record 10% of profits of B Company for six months ended 30th June 1944 realized by A Company on sale of shares	
Profit and loss .....	4,000.00
(2) To investment in shares of B Company	4,000.00
To transfer to credit of latter account propor- tion of dividends received from B Company at 31st December 1944 but paid by that com- pany from surplus at acquisition	
2. Consolidating entries.	

### THE A COMPANY LIMITED AND SUBSIDIARIES

Particulars	Dr.	Cr.
Capital stock .....	\$200,000.00	
(1) Surplus (1st January 1944) .....	60,000.00	
Goodwill .....	18,000.00	
To Investment in shares of B Company		\$252,000.00
To Minority Interests .....		26,000.00
To eliminate investment in B Company as at 1st January 1944		
Investment in shares of B Company ....	31,250.00	
(2) Surplus (profit and loss account) .....	750.00	
To Minority Interests .....		26,750.00
To Goodwill .....		5,250.00
To adjust entry (1) above in respect of sale to minority at 30th June 1944 of a 10% interest in B Company, including 10% of profits earned subsequent to 1st January 1944		
Profit and loss .....	2,250.00	
(3) To Minority Interests .....		2,250.00
To eliminate minority interest in profits of B Company for year ended 31st De- cember 1944		
Minority Interests .....	4,000.00	
(4) To Surplus (dividends paid) .....		4,000.00
To charge minority with dividends receiv- ed from B Company.		
Investment in shares of B Company ....	\$ 4,000.00	

THE CANADIAN CHARTERED ACCOUNTANT

(5)	To Surplus (Inter-company dividends) ..	\$ 4,000.00
	To eliminate portion of B Company dividend paid from acquired surplus	
	Capital stock .....	100,000.00
	Surplus 1st January 1944 .....	145,000.00
(6)	To Investment in shares of C Company	182,000.00
	To Minority Interests .....	49,000.00
	To Goodwill .....	14,000.00
	To eliminate investment in C Company at 1st January 1944	
	Minority interests .....	26,500.00
	Goodwill .....	5,500.00
(7)	To Investment in shares of C Company	32,000.00
	To adjust entry (6) above in respect of purchase of additional 10% interest in C Company as of 30th June 1944	
	as of 30th June 1944	
	Profit and loss .....	6,000.00
(8)	To Minority Interests .....	6,000.00
	To eliminate minority interest in profits of C Company for year ended 31st December 1944	
	Minority Interests .....	1,000.00
(9)	To Surplus (dividends paid) .....	1,000.00
	To charge minority with dividends received from C Company	

4. CONSOLIDATING STATEMENT OF EARNED SURPLUS  
AS AT 31st DECEMBER 1944

Item	A	B	C	Consolidating journal entries	Consolidated
1st January 1944 ...	\$166,500.00	\$60,000.00	\$145,000.00	(1) \$ 60,000.00 (6) 145,000.00	\$166,500.00
Profits for year	4,250.00	15,000.00	40,000.00	(2) 750.00 (3) 2,250.00 (8) 6,000.00	41,750.00
Inter-company dividends	21,000.00	20,000.00	10,000.00	(4) 4,000.00 (9) 1,000.00 (5) 4,000.00	70,000.00
Dividends	70,000.00				70,000.00
	<u>\$113,250.00</u>	<u>\$55,000.00</u>	<u>\$175,000.00</u>	<u>\$205,000.00</u>	<u>\$138,250.00</u>

**A COMPANY AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET AS AT 31st DECEMBER**  
**1944 (SHOWING THE ADJUSTED TRIAL BALANCE OF A**  
**COMPANY LIMITED)**

Item	A		B		C		Consolidating journal entries		Consolidated (final)
	Company Limited	A Company Limited adjustments Dr. Cr.	Company Limited (final)	Company Limited	Company Limited	Dr. Cr.	Dr. Cr.		
<b>Assets:</b>									
Current assets	\$152,500.00		\$152,500.00	\$150,000.00	\$105,000.00				\$407,500.00
Buildings				170,000.00	235,000.00				405,000.00
<b>Investments in subsidiaries:</b>							(2) \$ 31,250.00		
B Company Limited	220,000.00 (1)	\$ 750.00 (2)	\$4,000.00	216,750.00			(5) 4,000.00 (1)	\$252,000.00	—
C Company Limited	214,000.00			214,000.00				(6) 182,000.00 (7) 32,000.00	
<b>Advances to subsidiaries:</b>									
B Company Limited	25,000.00		25,000.00	25,000.00					
C Company Limited	40,000.00		40,000.00		40,000.00				
Goodwill							(1) 18,000.00 (2) 5,250.00 (7) 5,500.00 (6) 14,000.00		4,250.00
	<u>\$651,500.00</u>		<u>\$648,250.00</u>	<u>\$295,000.00</u>	<u>\$300,000.00</u>				<u>\$816,750.00</u>

# LIABILITIES:

## Share capital:

A Company Limited	\$300,000.00	\$300,000.00							\$300,000.00
B Company Limited			\$200,000.00	(1)	\$200,000.00				—
C Company Limited				(6)	100,000.00				—
Accounts payable	235,000.00	235,000.00	40,000.00	25,000.00	(4)	4,000.00	(1)	\$26,000.00	300,000.00
Minority Interests	—	—	—	—	(7)	26,500.00	(2)	26,750.00	78,500.00
					(9)	1,000.00	(3)	2,250.00	
					(6)		(6)	49,000.00	
					(8)		(8)	6,000.00	

## Surplus:

Balance 1st January 1944	166,500.00	166,500.00	60,000.00	145,000.00	(1)	60,000.00	(1)		166,500.00
Profit for the year	5,000.00	(1) 750.00	15,000.00	40,000.00	(2)	750.00	(2)		
Dividends received	25,000.00	(2) 4,000.00	21,000.00		(3)	2,250.00	(3)		41,750.00
Dividends paid	70,000.00		70,000.00	20,000.00	(4)		(4)	4,000.00	
Balance 31st December 1944	\$116,500.00	\$4,750.00	\$4,750.00	\$55,000.00	(5)	4,000.00	(5)	4,000.00	25,000.00
	\$651,500.00	\$4,750.00	\$4,750.00	\$295,000.00	(6)		(6)	1,000.00	95,000.00
					(8)		(8)		
									\$138,250.00
									\$816,750.00

Note: Advances from parent in subsidiaries offset against advances to subsidiaries in parent  
 Italicized figures under Assets are "credits" and under Liabilities are "debts".